

**UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

In re:

SEARS HOLDINGS CORPORATION, *et al.*,

Debtors.¹

Chapter 11

Case No. 18-23538 (RDD)

(Jointly Administered)

**EVIDENTIARY HEARING DECLARATION OF ROGER A. PUERTO IN SUPPORT OF
TRANSFORM HOLDCO LLC’S REPLY TO MOAC MALL HOLDINGS LLC’S (I)
OBJECTION TO SUPPLEMENTAL NOTICE OF CURE COSTS AND POTENTIAL
ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS AND
UNEXPIRED LEASES IN CONNECTION WITH GLOBAL SALE TRANSACTION; (II)
SECOND SUPPLEMENTAL AND AMENDED: (A) OBJECTIONS TO DEBTOR’S
NOTICE OF ASSUMPTION AND ASSIGNMENT OF ADDITIONAL DESIGNATABLE
LEASES, AND (B) OBJECTION TO DEBTOR’S STATED CURE AMOUNT; AND (III)
THIRD SUPPLEMENTAL AND AMENDED OBJECTIONS TO DEBTOR’S NOTICE OF
ASSUMPTION AND ASSIGNMENT OF ADDITIONAL DESIGNATABLE LEASES**

I, Roger A. Puerto, declare under penalty of perjury in accordance with section 1746 of Title 28 of the United States Code, that the following is true to the best of my knowledge, information, and belief:

1. I am the Head of Real Estate Transactions at Transform Holdco LLC (“**Transform Holdco**”) and its related and affiliated entities (collectively, “**Transform**”). I submit this

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); SHC Licensed Business LLC (3718); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SYW Relay LLC (1870); Wally Labs LLC (None); u Promotions LLC (9626); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); Sears Brands Management Corporation (5365); and SRe Holding Corporation (4816). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

declaration (“**Declaration**”) in support of the Transform Holdco’s Reply to various objections made by MOAC Mall Holdings, LLC (“**MOAC**”) to the Debtors’ contemplated assignment of a lease at the Mall of America to Transform. Specifically, I am submitting this Declaration to confirm that Transform has substantial asset value that is being realized in a systematic and expedited manner to ensure parties such as MOAC that Transform can meet its future leasehold obligations. Transform authorized me to submit this Declaration, and I base the facts stated in this Declaration on my personal knowledge, my experience, and my review of relevant documents. If called upon to testify, I could and would testify to the facts and opinions set forth in this Declaration.

Background and Qualifications

2. I joined Transform from Sears Holdings Corporation (“**Sears**”) after Transform purchased substantially all of it and its related affiliates’ assets. At Sears, I was also the Head of Real Estate Transactions from June 2018 until the sale with Transform closed in February 2019. I joined Sears in August 2017 as a consultant to the former President of Sears Real Estate. In my role as a consultant and the Head of Real Estate Transactions at Sears, prior to the commencement of the Sears chapter 11 cases, I designed the sale process working with a network of brokers in specific local markets to attract potential buyers. I negotiated directly with potential buyers to help maximize the value of the real property being sold, and coordinated with outside legal counsel to negotiate deal terms and leases associated with the properties. Since March 2018, this sale process resulted in 62 transactions, generating a total of approximately \$555 million in gross proceeds, approximately \$75 million more than the aggregate appraised value of the real property subject to the transactions.

3. Prior to joining Sears, from October 2010 to August 2017, I was an investment analyst at Fairholme Capital Management (“**Fairholme**”), a registered investment advisor. At the time, Fairholme held certain Sears debt and was the second largest shareholder of Sears and Seritage Growth Properties (“**Seritage**”), a publicly traded real estate investment trust company. From 2012 until my departure from Fairholme, I primarily worked on designing the valuation framework for real estate owned by Sears and eventually Seritage, performing over 200 property tours all over the United States, and running valuation experiments with brokers, developers, and national appraisers.

4. I am personally familiar with Transform’s real estate portfolio, and Transform’s ongoing marketing efforts undertaken to monetize certain assets within Transform’s real estate portfolio.

Continued Monetization of Transform’s Real Estate Portfolio

5. I am aware that in a letter provided by counsel for Transform to counsel to the Landlords on April 26, 2019, Transform stated that it intended to continue to operate Sears/Kmart with a smaller footprint of stores, with a goal of leveraging a synergistic network and interdependent ecosystems across numerous business segments. As stated at that time, in addition to the operating store footprint, Transform owns related real estate interests and significant lines of businesses including the iconic Kenmore and DieHard brands, the Sears Home Services business, the Innovel delivery and installation business, and the online “Shop Your Way” platform.

6. Since the closing on the sale transaction, Transform continues to take steps to rationalize the business and improve operating performance. As part of this process, Transform recently announced the closing of 26 retail stores that were not core to Transform’s operating business. In fact, Transform will continue to explore opportunities to maximize the value of its real

estate holdings, consistent with its overall business strategy. An important aspect of this business strategy is the announced acquisition of over 400 small footprint stores throughout the country. Each of these steps enhance the value of Transform for the benefit of its creditors, including landlords, and provide further evidence of adequate assurance of future performance.

■ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

8. As part of my daily duties, I am responsible for divesting non-core properties irrespective of whether they form part of the Encumbered Property or the Unencumbered Property. Based on the transactions I am presently pursuing, it is reasonable that, during the course of the next six months, [REDACTED]

[REDACTED] Recognizing that, in addition to operating a footprint of retail stores, Transform is similarly a real estate company, and the process of continuing to divest non-core real estate assets creates substantial value for Transform. As a result, the sale of Encumbered Property will pay down Transform debt and the sale of Unencumbered Property will generate additional cash for use by Transform in its operating

businesses, both of which, in my opinion, will have a material impact on strengthening the Company.

9. In the end, in my experience, landlords such as MOAC are rarely concerned with the ability of Transform to meet its continued financial obligations under the respective leases. Rather, landlords are principally concerned with extracting the value inherent in these leases and controlling the space within the shopping center or other retail location. This is especially true with locations such as the Mall of America, where the lease has substantial economic value to the lessee.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: August 18, 2019
Miami, Florida

/s/ Roger A. Puerto
Roger A. Puerto
Head of Real Estate Transactions
Transform Holdco LLC